ISSUE DATE: July 13, 1995

DOCKET NO. G,E-999/AA-94-762

ORDER ACCEPTING ANNUAL AUTOMATIC ADJUSTMENT REPORTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Don Storm | Chair |
| Tom Burton | Commissioner |
| Joel Jacobs | Commissioner |
| Marshall Johnson | Commissioner |
| Dee Knaak | Commissioner |

In the Matter of the Review of the 1994 Automatic Adjustment of Charges for All Gas and Electric Utilities

ISSUE DATE: July 13, 1995

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## PROCEDURAL HISTORY

Under Minn. Rules, parts 7825.2390 through 7825.2920, regulated gas and electric utilities may adjust their rates between general rate cases to reflect varying prices for gas or electricity purchased for delivery to ratepayers, or for fuel purchased to generate electricity for ratepayers. These adjustments are called automatic adjustments, because they normally take effect without prior Commission approval.

Utilities using automatic adjustments are required to submit several annual filings, all due September 1, providing information on automatic adjustments made during the preceding July 1-June 30 twelve month period. Utilities are also required by rule to serve notice of these filings on all parties who intervened in the utilities' last two general rate cases. Minn. Rules, part 7825.2840.

All Minnesota utilities subject to the annual reporting requirement filed their 1994 annual reports and complied with the notice requirement of Minn. Rules, part 7825.2840.[1] The filing utilities are: Dakota Electric Association (Dakota Electric); Great Plains Natural Gas Company (Great Plains); Interstate Power Company (Interstate--Electric Division and Gas Division); Minnegasco, Minnesota Power and Light Company (Minnesota Power); Northern States Power Company (NSP--Electric Division and Gas Division); Western Gas Utilities, Inc. (Western);

[1] In Docket No. E-016/M-94-885, Northwestern Wisconsin Electric Power (Northwestern) was granted a one year variance exempting it from the annual filing requirements. Northwestern was granted a variance because the reporting requirements would have been unduly burdensome, given the small number (79) of customers Northwestern serves in Minnesota.

Northern Minnesota Utilities (NMU); Otter Tail Power Company (Otter Tail); and Peoples Natural Gas Company (Peoples).

On January 17, 1995, the Department of Public Service (the Department) filed its review of the 1994 annual automatic adjustment reports. The Department made several recommendations concerning individual gas utilities. The Department also provided a detailed comparative analysis of the gas rates Minnesota ratepayers were charged during the 1993-94 gas year, as well as other supplemental information.

On January 30, 1995, Interstate filed responsive comments.

On February 24 and March 27, 1995, NSP Gas submitted reply comments.

On March 16 and April 5, 1995, the Department filed reply comments.

On April 13, 1995, the matter came before the Commission for consideration. At that meeting the Commission resolved all issues except a $1.05 million true-up adjustment proposed by NSP Gas. The Commission tabled the matter, pending further written comments by the Department and NSP Gas.

On May 15, 1995, NSP Gas filed a statement of clarification and optional petition for variance.

On May 31, 1995, the Department filed a response.

On June 12, 1995, NSP Gas filed a request for Commission authority to submit an answer to the Department's comments, and an answer.

On June 29, 1995, the matter again came before the Commission for consideration.

## FINDINGS AND CONCLUSIONS

## I. THE 1994 ANNUAL AUTOMATIC ADJUSTMENT REPORTS

In its review of the 1994 annual automatic adjustment filings, the Department analyzed whether the annual true-up adjustments and charges were correctly determined.

The Department performed additional analysis on over- and under-recovered amounts in excess of 1.5% of a company's fuel costs. Most over- and under-recovered fuel cost balances were attributed to weather conditions, calculation errors or changes in energy consumption.
The Department made recommendations on certain areas of concern uncovered in its analysis. The Commission agrees with and adopts these recommendations.

### A. Electric Utilities

The Department stated that all of the 1994 annual reports filed by electric utilities complied with the filing requirements of Minnesota Rules, part 7825.2810.

Although Minnesota Power, NSP, Otter Tail, Interstate Power-Electric and Dakota Electric under- or over-recovered by more than 1.5%, each of the utilities had a reasonable explanation for the mismatch.

The Commission agrees with the Department that the electric utilities' annual automatic adjustment reports are acceptable.

### B. Gas Utilities

In its report, the Department sought to determine if there were any systemic problems with the automatic adjustment calculations and whether the annual true-up charges were correct.

In reviewing the gas utilities' annual filings, the Department noted several filing deficiencies. The Department recommended specific measures to correct these deficiencies.

#### 1. Interstate

In general, the Department found that Interstate had accurately and adequately reported on its automatic fuel adjustments. The Department found two instances, however, in which Interstate failed to comply with filing requirements previously established by the Commission.

First, the Department stated that Interstate did not comply with the Commission's last Order accepting annual adjustment filings[2], which required Interstate to report its fuel cost and true-up information by customer class and by billing component. The Department disagreed with Interstate's argument that the required information could be gleaned from various parts of the Company's 1994 report.

The Commission agrees with the Department that Interstate should report this information for 1993-1994 within 30 days of this Order and should report this information for 1994-95 with its 1995 annual fuel report.

Second, the Department stated that Interstate did not comply with an earlier Commission Order[3]

[2] In the Matter of the Review of 1992 Automatic Adjustment of Charges for All Gas and Electric Utilities; In the Matter of the Review of 1993 Automatic Adjustment of Charges for All Gas and Electric Utilities, Docket No. G,E-999/AA-92-1062; G,E-999/AA-93-682, ORDER ACCEPTING ANNUAL AUTOMATIC ADJUSTMENT REPORTS (April 7, 1994).

[3] In the Matter of a Request by Interstate Power Company for Approval to Increase Its Pipeline Demand Entitlements and to Recover the Associated Costs in Its Monthly Purchased Gas Adjustment Pursuant to Federal Energy Regulatory Commission Order 636, Docket No. G-001/M-93-1219, ORDER APPROVING PETITION AND REQUIRING FILING (September 20, 1994).

requiring a review and evaluation of the amount of System Management Service (SMS) Interstate uses.

The Commission agrees with the Department that Interstate should submit a review and evaluation of its SMS use within 30 days of the date of this Order.

**2. Northern Minnesota Utilities**

The Department recommended that the Commission order NMU to provide a complete cost/benefit analysis of its gas supply contract with Mobil in its 1994 and 1995 annual reports.

The Commission originally required this information for the 1994 report in an Order issued December, 1994, approximately three months after the 1994 annual filing deadline. The Commission will therefore defer this filing requirement until the 1995 annual report.

The Commission also previously required NMU to provide cost/benefit information on the choice of UtiliCorp as a gas supplier. In an informal Order dated March 29, 1994[4], the Commission ordered NMU and Peoples to:

> Annually quantify all benefits and costs of using UtiliCorp to provide the services rather than using other reasonable means of procuring gas. This information should be included in the Companies' annual gas reports.

The Department recommended that NMU be required to provide the cost/benefit information within 30 days of this Order and in future annual reports.

Since the Department made its recommendation, NMU submitted information on UtiliCorp which satisfies the cost/benefit requirement. The Commission will, however, continue to require this filing in future annual reports.

**3. Peoples**

Like NMU, Peoples was under an obligation to provide cost/benefit information on the choice of UtiliCorp as a gas supplier. As it did with NMU, the Department recommended that Peoples file this information as a compliance filing and in future annual reports.

Since the Department made its recommendation, Peoples has filed the cost/benefit information required for the 1994 report. The Commission will therefore order Peoples to provide the information in its 1995 annual report.

**4. Western Gas**

The Department made two recommendations regarding Western Gas's annual filings.

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[4] Docket No. G-011,007/AI-93-923.

First, the Department recommended that Western be required to provide written support of its over- and under-recovery of gas costs during 1993-94.

Second, the Department recommended that the Commission order Western to make certain refunds and to modify its true-up factors.

The Commission adopts these Department recommendations.

### 5. NSP GAS

#### a. Factual Background

In its filing, NSP Gas proposed an adjustment to recover a past undercollection due to the Company's accounting error.

The Company discovered that, due to an internal reporting change, certain commodity gas costs were inadvertently deducted twice in its true-up report submitted on September 1, 1993, for the July, 1992, to June, 1993, period. As a result of the double deduction, the gas cost true-up amount to be recovered in the 1993-94 true-up factor rate was understated by $1,051,827.

To adjust for the error it discovered, NSP Gas netted the underrecovered amount against a credit of $219,223 for overrecovered gas costs from the 1992-93 true-up time period. The net of this offset ($832,604) was included in the Company's 1994 true-up factor calculation.

#### b. Positions of the Parties

NSP Gas stated that its proposed adjustment was an appropriate and necessary "true-up of the true-up" which was allowed by the terms of Rate Sheet 5-19 in the NSP Gas Rate Book. NSP argued that no rule variance was necessary for this adjustment, since the relevant rule, Minn. Rules, part 7825.2700, did not make specific mention of true-ups of true-ups. The Company argued that the adjustment would be consistent with the general terms of the rule and with past Commission treatment of true-ups of true-ups.

NSP urged the Commission to grant a variance to Minn. Rules, part 7825.2700, should the Commission find that a variance is necessary for the adjustment.

In its original report, the Department opposed the Company's proposed PGA adjustment for a past accounting error. After the Company filed further explanations and a request for a variance, the Department recommended that the Commission grant NSP a variance to allow the Company to factor the previous underrecovery in its present PGA true-up calculation.

The Department argued that the adjustment was not really a true-up of a true-up, but rather an out-of-period adjustment. Such an exception to the concept of the PGA would require a variance to Minn. Rules, part 7825.2700, subp. 7, which only allows adjustments for over- or under-recoveries from the previous 12-month period. The Department stated that NSP satisfied the criteria of Minn. Rules, part 7829.3200, for granting a variance to the rule.

In its investigation of the proposed $1.05 million adjustment, the Department performed an on-site analysis of NSP Gas's accounting procedures. During this investigation, the Department found what it considered further errors in NSP's accounting procedures and calculations. The Department therefore recommended that the Commission establish several new requirements for NSP Gas. The Department recommended that the Commission require NSP Gas to:

1. direct its external auditors to reconcile the true-up reports submitted to the Commission to the original invoices NSP receives from Northern Natural and other suppliers, rather than simply using summary reports of NSP Gas's books and records;

2. investigate whether NSP Gas was under- or over-charging NSP Generation and submit a report within 30 days of the Commission's Order. If a refund is due to the Company's sales customers, the refund should be offset against the Company's $1.05 million adjustment;

3. investigate how it handles the accounting for gas sold to NSP Generation (including gas and non-gas costs) and submit a report within 30 days;

4. explain why NSP's present inter-company accounting system more clearly and concisely reflects inter-company transactions than simply invoicing the affiliate company.

In a reply to the Department's report, NSP Gas stated that it had corrected the accounting irregularities cited by the Department. If the Commission does require the reports recommended by the Department, NSP asked that they be incorporated into the Company's next annual automatic adjustment reports due September 1, 1995.

At the June 29 meeting, the Department stated that NSP had at least partially answered the Department's concerns in the Company's June 21, 1995, reply comments. The Department agreed that the Company's reports should be filed along with its September 1, 1995, PGA filing.

### c. Commission Action

The Commission must decide if a variance is necessary for NSP Gas to recover the $1.05 million previously under collected, if a variance should be granted in this case, and what, if any, action should be taken to address the concerns raised by the Department regarding the Company's accounting procedures.

#### I. Necessity for a variance

Minn. Rules, part 7825.2700, subp. 7, reads as follows:

> True-up amount. The true-up amount is the difference between the commodity and demand gas revenues by class collected by the utility and the actual commodity-delivered gas cost and demand-delivered gas cost by class incurred by the utility during the year. The true-up adjustment must be computed annually for each class by dividing the true-up amount by the forecasted sales volumes and applied to billings during the next 12-month period beginning on September 1 each year, provided that the adjustment has been filed under part 7825.2910, subpart 3.

The rule recognizes that weather and sales variables will often cause the amounts collected in the prior year through PGA calculations to differ from actual gas costs and revenues in the year. A true-up mechanism is allowed in order to facilitate the utility's recovery of actual gas costs from the prior year. The rule does *not* contemplate a utility adjustment to correct an accounting error which occurred in a period prior to the past 12-month period. A variance from Minn. Rules, part 7825.2700, subp. 7 would be necessary for the utility to recover such an out-of-period adjustment.

#### ii. Granting the variance

Minn. Rules, part 7829.3200, subp. 1 provide that the Commission shall grant a requested rule variance if: enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule; granting the variance would not adversely affect the public interest; and granting the variance would not conflict with standards imposed by law.

In this case, enforcing Minn. Rules, part 7825.2700, subp. 7 would preclude NSP from recovering its undercollection of $1.05 million because the accounting error occurred prior to the preceding 12-month period. Failure to recover over $1 million in gas costs would undoubtedly place a burden upon NSP Gas. As the Company pointed out, the loss would represent almost 10% of the return on equity allowed in the Company's most recent rate case.

Granting a rule variance to allow NSP to recover its past undercollection would not adversely affect the public interest. As the Department stated, if the entire time period covered in this matter is considered, no harm has befallen ratepayers. Although NSP proposes to collect an additional $1.05 million from ratepayers in the current 1994-1995 true-up period (and has already begun the collection), this amount could have and should have been collected as a normal cost during the 1993-94 period. The net effect to ratepayers is $0.

As the Department notes, the adjustment will take place with a ratepayer list which differs somewhat from the list of ratepayers when the undercollection occurred. The Commission agrees with the Department that this circumstance does not outweigh the benefit of allowing the Company full gas cost recovery as contemplated under the PGA rules.

Finally, granting the variance would not conflict with standards imposed by law.

The Company's request for a rule variance fulfills the rule criteria. The Commission will grant NSP Gas a variance from Minn. Rules, part 7825.2700, subp. 7 to allow the Company to factor its previous $1.05 million undercollection in its 1994 true-up factor calculation.

### iii. The Company's Accounting Procedures

Discovery of the Company's $1.05 million accounting error, and the ensuing investigation of the Company's accounting procedures, led the Department to question the Company's general accounting procedures.

In its filings the Department raised three main accounting issues it uncovered through its investigation. First, the Department found a single error in the reporting of commodity and transportation gas expenses for the month of November, 1992. Second, the Department found that NSP Gas may have inadvertently deducted non-gas margins associated with gas transfers to NSP Generation from its cost calculations not only for the true-up period in question, but for all of its transactions with NSP Generation. If such an error occurred, the Company might have failed to recover the margins. Third, the Department discovered that NSP Gas did not perform a true-up of gas costs for NSP Generation. The Department believed that this may have resulted in the Company's over- or under-billing NSP Generation for gas commodity costs. The Department recommended that the Company be required to report on these accounting errors, and to defend their present inter-company accounting system against the alternative of invoicing the affiliate company.

In its reply, NSP noted that the one-time error was not significant, that it had changed several accounting practices, and that it would agree to true up gas costs for NSP Generation in prospective billings.

The Commission appreciates the Department's careful investigation of NSP's inter-company accounting practices. The Commission shares the Department's concern regarding the depth and possible range of accounting errors uncovered during the Department's analysis.

The Commission is concerned that discovery of an accounting error of over $1 million seems to have been the result of a happy accident rather than the product of the Company's ongoing accounting procedures. The Commission recognizes that the Company is attempting to make improvements to its accounting procedures. In this case, however, the problem seems systemic and may not be amenable to changes imposed upon the basic structure.

In the post-FERC 636 gas era, NSP Gas's sales to NSP Generation are complex and are likely to remain so. NSP Gas treats NSP Generation as a transportation-only customer, providing transportation services with a Commission-approved margin plus gas supplies at NSP's weighted-average-cost-of-gas (except PGA estimate differences) for system customers. Gas supplies sold to NSP Generation are not handled through NSP Gas's Agency Services, but are rather treated in a manner similar to supplies to sales customers. The result is a system of complex intra-company accounting entries. The post-FERC 636 separation of gas functions, and the centralization of NSP's accounting services, together create a strong possibility that accounting entries may not reflect the realities of the NSP Gas-NSP Generation transactions.

The Commission finds that the solution to this dilemma is the Company's conversion of its intra-company accounting system to the invoicing system for sales to NSP Generation. Generating invoices to the affiliate will help ensure that the realities of the transactions, developments, and any budding problems will be brought to the attention of the parties who best understand their significance. Invoicing should provide the assurance of checks and balances which are present in other arms-length transactions with nonaffiliated companies.

The Commission will require that NSP Gas change from its intra-company accounting system to the invoicing system for sales to NSP Generation. The Commission notes that NSP Gas indicated its willingness to proceed with this transition at the June 29 meeting.

The Commission will also require the Company to provide the accounting reports recommended by the Department. While the significance of some of these reports will change because of the Company's move to the invoicing system, the reports will still provide helpful baseline information for the Department and the Commission to monitor the Company's improvements in its accounting procedures. The Commission agrees with NSP Gas that these reports should be filed along with the Company's 1995 PGA filing due September 1, 1995.

Finally, the Commission agrees with the Department that the Company should direct its external auditors to reconcile the true-up reports submitted to the Commission to the original invoices NSP receives from Northern Natural and other suppliers, rather than simply using summary reports of NSP Gas's books and records. This change should improve the Company's accounting procedures on an ongoing basis.

## II. FUTURE REPORTING REQUIREMENTS FOR THE DEPARTMENT

### A. Summary of Commission Action

The Commission has accepted the Department's recommendations regarding the 1995 annual automatic adjustment reports. Because the Commission found the Department's reports thorough and helpful, the Commission will request the Department to structure its future reports in a similar fashion. The Commission will also request the Department to make additional reports on certain areas of particular concern.

### B. The 1995 Reports

In its 1994 annual automatic adjustment report, the Department included comparative data ranking Minnesota gas utilities by average total customer bill, per unit total gas costs, non-gas margins, weighted-average-cost-of-gas (WACOG), per-unit demand costs, per-unit storage costs, peak-day demand requirements and load factors. This data provided the Commission useful baseline information about the utilities' gas purchases and other supply arrangements.

The Department also provided a summary of how restructured pipeline rates under FERC Order 636 impacted retail rates. The data compared March, 1993, rates to March, 1994, rates.

The Commission finds that the Department's 1994 annual automatic adjustment report was thorough and complete. The report provided useful supplemental and background information with which the Commission and Department may assess the utilities' past year's performance.

The review of the utilities' annual automatic adjustment reporting is one important element of the ongoing regulation of utility fuel costs conducted by the Department and the Commission. The Department supplies additional information to facilitate this review, including quarterly PGA summaries.

The Department's 1993-94 quarterly PGA summaries included, by month, the average cost of gas, the commodity weighted average cost of gas, and the demand cost of gas for firm customers, as well as the highest and lowest amount paid for commodity supplies by each gas utility. The Department's summaries also included an average total for each month.

On February 2, 1994, the Department amended these reports with summary information, by utility, for the volume-weighted average cost of gas, the volume weighted commodity cost of gas, and the volume weighted demand cost of gas for firm customers.

The Commission finds that the Department's PGA reports, as supplemented, were thorough, helpful, and complete.

The Commission will require the Department to structure its 1995 annual automatic adjustment report and its 1994-95 quarterly PGA summaries in a fashion similar to the 1994 filings. Because the Department has indicated that it will be improving and supplementing its reports in the year ahead, the Commission will not restrict the Department to the exact format used in the reports now before the Commission. The Commission requests that the information and format be similar, with the understanding that the Department may adjust the reports where it deems necessary.

### C. Additional Reports

In its thorough analysis of the utilities' fuel cost filings, the Department raised several issues for future consideration. The Commission will therefore require the Department to address several additional areas of concern in its 1995 annual automatic adjustment report.

#### 1. Analysis of the Electric Utilities' Reports

Each of the electric utilities submitted reports covering procurement policies, dispatching procedures, cost-minimizing efforts, and fuel-cost projections. Although the Department stated that it reviewed these filings, it did not elaborate on its analysis. The Commission will ask the Department to include in its 1995 report a brief analysis of the electric utilities' procurement policies, dispatching procedures, cost-minimizing efforts, and fuel-cost projections.

#### 2. Lost and Unaccounted-for Gas

The amount of a gas utility's lost and unaccounted-for gas is one indicator of how well the utility maintains its distribution system. Lost and unaccounted-for gas can also have an impact on the utility's rates.

In order to better monitor this issue, the Commission will require the Department to include in future annual reports a very brief summary of the utilities' treatment of lost and unaccounted-for gas. The report should include an analysis of the impact of the lost and unaccounted-for gas on rates, either through base rates or through a pass-through in the PGA.

The report should also include data comparing percentages of lost and unaccounted-for gas for each gas utility for the July 1, 1994, to June 30, 1995 time period.

#### 3. Reserve Margins

The Department's annual report already contains a profile of the gas utilities' peak-day demand. The 1994 report shows that NSP, Great Plains, NMU and Minnegasco had pipeline entitlements and other capacity available in amounts that exceeded their 1993-94 winter peak-day requirements. By contrast, Interstate, Western, and Peoples had fewer entitlements and less available capacity than what they actually used on-peak.

Because three of seven gas utilities had peak-day send-outs in excess of their firm design-day capacity, the Commission will require supplemental information on this issue in the Department's next annual report. The Department should add to its Table 10 a list of each company's design-day requirements and a list of each company's reserve margin percentage, based on design-day entitlements under contract and other available capacity. The Department should include a very simple comparison of each utility's design-day methodology, including such information as the utility's use of a 30-year weather normal time period, and the frequency of design-day forecasting updates.

### 4. Additional Utility Reporting Requirements

Since the 1994 annual reports were filed on September 1, 1994, the Commission has approved a number of new gas utility filing requirements, most of which were recommended by the Department. The additional reports are on gas purchasing arrangements that are also affiliate transactions, the use of alternatives to the pipeline capacity release programs, and the payment and collection of balancing penalties.

The Department is monitoring these reports as they are filed and will be reporting on them in its next annual report. In order to better assess these new requirements in the Department's 1995 annual report, the Commission will require the Department to include a summary of utility filing requirements that have been added since September 1, 1994.

### 5. Cost/Benefit Quantification

As stated previously in this Order, NMU and Peoples are under an obligation to provide cost/benefit information regarding the choice of UtiliCorp as a gas supplier. To make this information more useful and accessible, the Commission will require the Department to analyze the cost/benefit quantifications provided by NMU and Peoples. The analysis should compare the data from 1993-94 to 1994-95 and should also compare the cost of choosing UtiliCorp with the cost of choosing alternative suppliers.

## III. THE IMPACT OF DSM ON CAPACITY REQUIREMENTS

Because Minnesota does not currently require gas utilities to engage in integrated resource planning, there is no formal process for assessing the impact of conservation on capacity requirements. Although parties have raised this issue, it is clear that under the present system it would be difficult to evaluate demand side management (DSM) impact without the benefit of engineering studies.

At this time a collaborative group consisting of utilities, intervenors, and Commission and Department representatives is studying gas DSM financial incentives. Because the Commission feels that the impact of DSM on gas utilities' capacity needs and planning could be very important, the Commission will ask the collaborative to investigate the issue and to report to the Commission.

## IV. BACKHAUL REPORTING REQUIREMENTS

When the Commission began approving changes in demand entitlements to facilitate backhaul agreements, the Commission required the gas utilities to file reports on the results of the backhaul agreements.

The Commission agrees with the Department that concerns about the operational reliability of backhaul arrangements no longer exist. The Commission will no longer require gas utilities to report on the backhaul agreements in their annual filings.

## V. ADEQUACY OF OTHER COMPANY FILINGS

### A. Annual Reports; Policies and Actions--Minn. Rules, Part 7825.2800

All public utilities are required to file annually their procurement policies for selecting sources of fuel and energy purchased. The utilities must also file dispatching policies, if applicable, and summaries of actions taken to minimize cost.

The Commission finds that the utilities' reports on policies and actions for 1993-94 meet the requirements of the rule. The Commission accepts the reports, and the Department's analysis of these filing requirements.

### B. Annual Auditor's Report--Minn. Rules, Part 7825.2820

Under this rule, gas and electric utilities must file independent auditor's reports evaluating accounting for automatic adjustments for the prior year.

Most audit engagements are done under contract with the utility, with the specific work to be performed spelled out in the contract engagement letter. The rule provides little guidance on the requirements for the audit.

The Commission agrees with the Department that the 1993-94 independent auditor's reports fulfill the requirements of the rule. The Commission will accept the utilities' auditor's reports and the Department's analysis of the reports.

To ensure more consistency and accountability in future gas utility filings, the Commission will require that future auditor's reports at least verify that the actual amounts included in the true-up calculations agree with the utility's accounting (revenue and expense) books and records. This information should help the utility, as well as the Department and Commission, to confirm that customers are being charged the correct gas costs.

### C. Annual Five-Year Projection--Minn. Rules, Part 7825.2830

This rule requires electric utilities to submit annual five-year projections of fuel costs by energy source. Gas utilities must submit annual brief opinions of the impact of market forces on gas costs for the coming year.

All gas and electric utilities required to make annual filings submitted reports meeting this requirement.

### D. Annual Notice of Reports Availability

This rule requires each gas and electric utility to provide annual notice of the reports defined in Minn. Rules, parts 7825.2800 to 7825.2830 to all intervenors in the utility's previous two general rate cases.

The Commission agrees with the Department that all reporting utilities have complied with the rule notification requirement.

## VI. EFFECTS OF THE NEW RULES OF PRACTICE AND PROCEDURE

During the past year the Commission implemented new rules of practice and procedure, Minn. Rules, parts 7829.0100 through 7829.3200. The new rules have affected the annual reporting process in at least two ways.

### A. Timing of Responsive Comments

Under the new rules of practice and procedure, parties are allowed 30 days to file comments in response to a miscellaneous tariff filing. Minn. Rules, part 7829.1400, subp. 1. Reply comments may be filed within 10 days. Minn. Rules, part 7829.1400, subp. 4. In most cases the Department is allowed a 30 day extension to the comment period as of right. Minn. Rules, part 7829.1400, subp. 8.

Although annual automatic adjustment reports differ from miscellaneous tariff filings, they are considered under this heading for purposes of the rules of practice and procedure.

Because the Department spends a great deal of time preparing its analysis and report for the annual automatic adjustment filings, it may not be able to comply with the timing requirements under the rule. The Commission notes this fact and will be open to a Department request for additional time to prepare the 1995 annual report, if further time is needed.

### B. Acceptance of Supplemental Information

The rules of practice and procedure allow one round of initial comments and one round of reply comments. Minn. Rules, part 7829.1400, subps. 3 and 4. In this case, the Department and NSP's comments, which were filed outside these parameters of the rule, have helped clarify the issues and develop the record. The Commission will vary Minn. Rules, part 7829.1400, subps. 3 and 4 to allow the comments into the record.

The inclusion of these additional comments meets the requirements for granting a variance under Minn. Rules, part 7829.3200. First, enforcement of the rule limiting comments to one round of initial comments and one round of replies would burden the parties by precluding full development of the record. Second, the public interest would be served by allowing the additional information into the record. Third, granting the variance would not conflict with standards imposed by law.

## ORDER

1. The 1993-94 annual reports filed by the above-named gas and electric utilities are accepted as being in proper form and in general compliance with Minn. Rules, part 7825.2390 through 7825.2920.

2. The Commission accepts the Department's annual report and recommendations.

3. Within 30 days of the date of this Order, Interstate shall file:

    a. 1993-94 fuel cost and true-up information by customer class and billing component. Interstate shall also include this information in its 1995 filing.

    b. a review and evaluation of its 1993-94 System Management Service use.

4. In its 1995 annual report, NMU shall include a cost/benefit analysis of its gas supply contract with Mobil and a cost/benefit analysis of its choice of UtiliCorp as a gas supplier.

5. In its 1995 annual report, Peoples shall include a cost/benefit analysis of its choice of UtiliCorp as a gas supplier.

6. Within 30 days of the date of this Order, Western shall provide, in writing, the information necessary to support its over- and under-recovery of 1993-94 gas costs.

7. To the extent, if any, that it has not completed this requirement, Western shall: remove from its true-up calculations the money collected from July, 1993, through October, 1993, for entitlements that were not approved until November 1, 1993; modify its true-up calculations to reflect this adjustment and all other relevant recommendations in the Department's report; refund the money associated with the entitlements that were not approved for use until November 1, 1993.

8. NSP Gas shall change from its intra-company accounting system to the invoicing system for its transactions with NSP Generation.

9. NSP Gas shall direct its external auditors to reconcile the true-up reports submitted to the Commission to the original invoices NSP Gas receives from Northern Natural and other suppliers, rather than simply using summary reports of the Company's books and records.

10. In its September 1, 1995, PGA filing, NSP Gas shall include:

    a. a report of its investigation of whether NSP Gas was under- or overcharging NSP Generation and any provision made for refunding NSP Gas's sales customers if a refund is necessary;

    b. a report of the Company's accounting for gas sold to NSP Generation (including gas and non-gas costs);

    c. a comparison of the Company's present inter-company accounting system with the Company's new invoicing system for transactions with NSP Generation.

11. In its 1995 annual report, the Department shall provide:

    a. a brief analysis of the electric utilities' procurement policies, dispatching procedures, cost-minimizing efforts, and fuel-cost projections.

    b. a very brief summary of the utilities' treatment of lost and unaccounted-for gas, including an analysis of the impact of the lost and unaccounted-for gas on rates, either through base rates or through a pass-through in the PGA. The report should also include data comparing percentages of lost and unaccounted-for gas for each gas utility for the July 1, 1994, to June 30, 1995, time period.

    c. in its Table 10, a list of each gas utility's design-day requirements and a list of each company's reserve margin percentage, based on design-day entitlements under contract and other available capacity. The report should include a very simple comparison of each utility's design-day methodology, including such information as the utility's use of a 30-year weather normal time period, and the frequency of design-day forecasting updates.

    d. a summary of utility filing requirements that have been added by the Commission since September 1, 1994.

e. an analysis of Peoples' and NMU's cost/benefit quantifications of the choice of UtiliCorp as a gas supplier. The analysis should compare the data from 1993-94 to 1994-95 and should also compare the cost of choosing UtiliCorp with the cost of choosing alternative suppliers.

12. Future auditors' reports filed pursuant to Minn. Rules, part 7825.2820 shall at least verify that the actual amounts included in the true-up calculations agree with the utility's accounting (revenue and expense) books and records.

13. The Commission requests the collaborative on gas DSM financial incentives to study the possible impact of DSM on gas utilities' capacity needs and planning and to report to the Commission on the results of its study.

14 Gas utilities need no longer include information on operational reliability of backhaul arrangements in their annual reports.

15. The Commission grants the Department and NSP a variance to Minn. Rules, part 7829.3200, subps. 3 and 4 to allow their additional comments to be included in the record.

16. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)